

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Baca Analyst: John Pavalasky Bill Number: AB 475
Related Bills: See Legislative History Telephone: 845-4335 Introduced Date: February 16, 2005
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Charitable Contribution Deduction/Cash Contributions Made In January 2005, For Victims Of The December 26, 2004, Indian Ocean Tsunami Treated As Made During 2004 Taxable Year

SUMMARY

This bill would accelerate the income tax benefits for charitable cash contributions made for the relief of victims of the Indian Ocean tsunami.

PURPOSE OF THE BILL

According to the author's office, the purpose of the bill is to conform California law to the recently enacted federal law, encourage these donations, and reward taxpayers for their generosity by allowing them the option of taking the deduction on either the 2004 or 2005 state tax return.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would go into effect immediately and apply to contributions, as specified, made in January 2005.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Generally under federal and state law individual taxpayers who itemize deductions may deduct eligible charitable contributions from their income only for the calendar year in which the contributions were made. Corporations are also allowed to deduct eligible charitable contributions from income for the calendar year in which the contributions are made.

Public Law (P.L.) 109-1 was enacted on January 7, 2005, to allow a taxpayer, whether an individual or a corporation, that makes a contribution in January 2005 to tsunami-relief efforts the option to deduct the contribution from their 2004 federal taxable income. To qualify for this federal deduction, donations that are otherwise eligible for deductibility must be made in cash, made to a United States charitable organization, and pledged to aid victims of the December 26, 2004, tsunami in the Indian Ocean. Taxpayers opting to deduct such a contribution from their 2004 federal taxable income will not be allowed to deduct those same contributions in 2005.

Board Position:

_____ S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	<u> X </u> PENDING

Department Director

Date

Gerald H. Goldberg

3/17/05

THIS BILL

This bill would enact law comparable to P.L. 109-1 by allowing individual taxpayers who made contributions in January 2005 to tsunami-relief efforts the option of deducting those contributions on the 2004 state tax return.

LEGISLATIVE HISTORY

SB 50 (Campbell/Maldonado, 2005/2006) provides both corporations as well as individuals who made contributions in January 2005 to tsunami-relief efforts the option of deducting those contributions on the 2004 state tax return. That bill was enrolled on March 10, 2005, and sent to the Governor for signature.

OTHER STATES' INFORMATION

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York*. These states were selected due to their similarities to California's economy, business entity types, population, and tax laws. Florida does not impose an income tax on individuals and Massachusetts repealed its charitable contribution deduction for years beginning on or after January 1, 2002, so there is no comparable deduction for charitable contributions for these two states. On January 25, 2005, Minnesota conformed to the new federal acceleration of the income tax benefits for charitable cash contributions made for the relief of victims of the Indian Ocean tsunami. Illinois, Michigan, and New York have not yet enacted conforming statutes.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

Based on data and assumptions discussed below, the Personal Income Tax (PIT) revenue impact from this bill is as follows:

Estimated Revenue Impact of AB 475 Effective Immediately, With Enactment On Or After March 2005 (\$ Millions)		
2004-05	2005-06	2006-07
Minor loss	Minor gain	Not applicable

Minor means less than \$500,000 loss/gain

Revenue Discussion

Due to limited data available on California contributions, the above estimate is based on the California pro-ration of the federal estimate for P.L. 109-1. The California share of the federal estimate is approximately \$400,000 (\$11 million times 3.8% pro-ration, rounded). Assuming that $\frac{3}{4}$ of the contributions are individuals and not businesses, the PIT impact is a minor loss of approximately \$300,000 (rounded).

Since the tax deduction would be accelerated into the 2004-05 fiscal year, there is a minor revenue loss for that year, and an offsetting minor revenue gain in 2005-06.

ARGUMENTS/POLICY CONCERNS

The federal law (P.L. 109-1) allows both individuals and corporations to elect to deduct eligible contributions on their 2004 federal tax returns; however, this bill does not apply to corporate taxpayers making otherwise eligible contributions.

LEGISLATIVE STAFF CONTACT

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